

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LINCOLN COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Lincoln County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County. Based upon the audit work performed, the financial statements are presented fairly in all material respects. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable Lincoln County's major federal program, U.S. Department of Commerce – Public Works Grant – Rowland Industrial Park, for the year ended June 30, 2004.

Financial Condition:

The county had total net assets of \$5,907,474 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,244,424 in its governmental activities as of June 30, 2004, with total net assets of \$5,884,744. In its enterprise fund, total net cash and cash equivalents were \$22,730 with total net assets of \$22,730. In its fiduciary fund, total cash and cash equivalents held in custody for others were \$8,641, with net assets of \$0. Total long-term debt principal as of June 30, 2004, was \$3,670,955 with \$180,552 due within the next year.

Report Comment:

- The Former Road Department Secretary Converted Vending Machine Commission Checks To Cash

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lincoln County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lincoln County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kent Clark, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements, is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2005, on our consideration of Lincoln County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Former Road Department Secretary Converted Vending Machine Commission Checks To Cash

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2005

LINCOLN COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Ronald W. Gilbert	County Judge/Executive
Earlin Cress	Magistrate
Mark Denham	Magistrate
Bill Dyehouse	Magistrate
Terry L. Wilcher	Magistrate

Other Elected Officials:

John E. Hackley	County Attorney
William David Gooch	Jailer
George O. Spoonamore, III	County Clerk
Teresa Reed	Circuit Court Clerk
Shelby R. Lakes	Sheriff
David Gambrel	Property Valuation Administrator
William Demrow	Coroner

Appointed Personnel:

Teresa Padgett	County Treasurer
Patricia Young	Occupational Tax Collector
Jessica Roark	Finance Officer

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LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,017,895	\$ 22,730	\$ 2,040,625
Investments	145,095		145,095
Total Current Assets	2,162,990	22,730	2,185,720
Noncurrent Assets:			
Capital Assets - Net of			
Accumulated Depreciation			
Land	339,743		339,743
Buildings	3,619,185		3,619,185
Equipment	350,000		350,000
Vehicles	198,871		198,871
Infrastructure Assets - Net			
of Depreciation	2,884,910		2,884,910
Total Noncurrent Assets	7,392,709		7,392,709
Total Assets	9,555,699	22,730	9,578,429
LIABILITIES			
Current Liabilities:			
Bonds Payable	35,000		35,000
Financing Obligations Payable	145,552		145,552
Total Current Liabilities	180,552		180,552
Noncurrent Liabilities:			
Bonds Payable	1,665,000		1,665,000
Financing Obligations Payable	1,825,403		1,825,403
Total Noncurrent Liabilities	3,490,403		3,490,403
Total Liabilities	3,670,955		3,670,955
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,640,320		4,640,320
Unrestricted	1,244,424	22,730	1,267,154
Total Net Assets	\$ 5,884,744	\$ 22,730	\$ 5,907,474

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,598,693	\$ 114,013	\$ 215,336	
Protection to Persons and Property	910,508	643,176	102,195	
General Health and Sanitation	250,486	397,680	52,416	
Social Services	108,345			
Recreation and Culture	87,095	850	13,440	
Roads	1,140,290		983,763	262,281
Interest on Long-term Debt	219,670		125,142	
Capital Projects	619,587			478,870
Total Governmental Activities	4,934,674	1,155,719	1,492,292	741,151
Business-type Activities:				
Jail Canteen	91,339	104,707		
Total Business-type Activities	91,339	104,707		
Total Primary Government	\$ 5,026,013	\$ 1,260,426	\$ 1,492,292	\$ 741,151

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes and Licenses

Occupational Taxes

Other Taxes

Excess Fees

Intergovernmental Revenues

Not Restricted

Unrestricted Investment Earnings

Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,269,344)	\$	\$ (1,269,344)
(165,137)		(165,137)
199,610		199,610
(108,345)		(108,345)
(72,805)		(72,805)
105,754		105,754
(94,528)		(94,528)
(140,717)		(140,717)
(1,545,512)		(1,545,512)
	13,368	13,368
	13,368	13,368
\$ (1,545,512)	\$ 13,368	\$ (1,532,144)
\$ 454,591		\$ 454,591
22,866		22,866
142,159		142,159
1,058,220		1,058,220
163,391		163,391
78,420		78,420
367		367
23,398		23,398
225,745		225,745
2,169,157		2,169,157
623,645	13,368	637,013
5,261,099	9,362	5,270,461
\$ 5,884,744	\$ 22,730	\$ 5,907,474

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Federal Grants Fund	Occupational Tax Fund
ASSETS					
Cash and Cash Equivalents	\$ 573,361	\$ 211,463	\$ 87,723	\$ 95,831	\$ 1,007,040
Investments					
Total assets	<u>\$ 573,361</u>	<u>\$ 211,463</u>	<u>\$ 87,723</u>	<u>\$ 95,831</u>	<u>\$ 1,007,040</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 91,682	\$ 49,155	\$ 23,191	\$ 5,000	\$ 2,333
Unreserved:					
General Fund	481,679				
Special Revenue Funds		162,308	64,532	90,831	1,004,707
Debt Service Fund					
Total Fund Balances	<u>\$ 573,361</u>	<u>\$ 211,463</u>	<u>\$ 87,723</u>	<u>\$ 95,831</u>	<u>\$ 1,007,040</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

	Non- Major Funds	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 42,477	\$ 2,017,895
Investments	145,095	145,095
Total assets	<u>\$ 187,572</u>	<u>\$ 2,162,990</u>
FUND BALANCES		
Fund Balances:		
Reserved for:		
Encumbrances	\$ 4,800	\$ 176,161
Unreserved:		
General Fund		481,679
Special Revenue Funds	14,262	1,336,640
Debt Service Fund	<u>168,510</u>	<u>168,510</u>
Total Fund Balances	<u>\$ 187,572</u>	<u>\$ 2,162,990</u>

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 2,162,990
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,075,065
Accumulated depreciation	(1,682,356)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Due within one year - bonds, notes, and other principal payments	(180,552)
Due in more than one year - bonds, notes, and other principal payments	<u>(3,490,403)</u>
Net Assets of Governmental Activities	<u>\$ 5,884,744</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>Federal Grants Fund</u>
REVENUES				
Taxes	\$ 783,007			
Excess Fees	78,420			
Licenses and Permits	104,386			
Intergovernmental	310,548	\$ 1,215,149	\$ 667,318	\$ 478,870
Charges for Services	366,431		49,489	
Miscellaneous	204,093	24,582	37,126	
Interest	5,247	1,429	731	
Total Revenues	<u>1,852,132</u>	<u>1,241,160</u>	<u>754,664</u>	<u>478,870</u>
EXPENDITURES				
General Government	693,622			
Protection to Persons and Property	244,804		663,726	
General Health and Sanitation	223,172	20,786		
Social Services	93,561			
Recreation and Culture	83,276			
Roads		1,602,179		
Debt Service	227,250			
Capital Projects		113,593		616,929
Administration	385,139	215,381	165,171	
Total Expenditures	<u>1,950,824</u>	<u>1,951,939</u>	<u>828,897</u>	<u>616,929</u>
Excess (deficiency) of Revenues Over Expenditures Before Other+ A67 Financing Sources (Uses)	<u>(98,692)</u>	<u>(710,779)</u>	<u>(74,233)</u>	<u>(138,059)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	297,000	847,000		
Transfers To Other Funds	(38,076)			
Total Other Financing Sources (Uses)	<u>258,924</u>	<u>847,000</u>		
Net Change in Fund Balances	160,232	136,221	(74,233)	(138,059)
Fund Balances - Beginning (Restated)	413,129	75,242	161,956	233,890
Fund Balances - Ending	<u>\$ 573,361</u>	<u>\$ 211,463</u>	<u>\$ 87,723</u>	<u>\$ 95,831</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Occupational Tax Fund	Non- Major Funds	Total Governmental Funds
\$ 1,058,220		\$ 1,841,227
		78,420
		104,386
	\$ 156,036	2,827,921
97		416,017
1,147		266,948
11,562	4,431	23,400
1,071,026	160,467	5,558,319
73,993		767,615
		908,530
		243,958
		93,561
		83,276
	31,799	1,633,978
	170,065	397,315
		730,522
22,272	10	787,973
96,265	201,874	5,646,728
974,761	(41,407)	(88,409)
	38,076	1,182,076
(1,144,000)		(1,182,076)
(1,144,000)	38,076	
(169,239)	(3,331)	(88,409)
1,176,279	190,903	2,251,399
\$ 1,007,040	\$ 187,572	\$ 2,162,990

The accompanying notes are an integral part of the financial statements.

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**LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	(88,409)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		859,951
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Depreciation expense		(325,542)
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KACO, KADD, and Ford Motor Credit financing obligations, and bond principal payments are expensed in the governmental funds as a use of current financial resources.

KACO financing obligations		106,443
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KADD financing obligations		10,000
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Ford Motor Credit financing obligations		26,202
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Bond payments		35,000
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Change in Net Assets of Governmental Activities	\$	623,645
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The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

LINCOLN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 22,730
Total Current Assets	<u>22,730</u>
Net Assets	
Unrestricted	22,730
Total Net Assets	<u><u>\$ 22,730</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 104,707
Total Revenue	<u>104,707</u>
Operating Expenses	
Cost of Sales	74,395
Educational and Recreational	7,947
Personnel Costs	<u>8,997</u>
Total Operating Expenses	<u>91,339</u>
Operating Income	<u>13,368</u>
Change In Net Assets	<u>13,368</u>
Total Net Assets - Beginning	<u>9,362</u>
Total Net Assets - Ending	<u><u>\$ 22,730</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Inmates	\$ 104,707
Cost of Sales	(74,395)
Educational and Recreational	(7,947)
Personnel Costs	<u>(8,997)</u>
Net Cash Provided By	
Operating Activities	<u>13,368</u>
Net Increase in Cash and Cash	
Equivalents	13,368
Cash and Cash Equivalents - July 1, 2003	<u>9,362</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 22,730</u></u>

**Reconciliation of Operating Income to
Net Cash Provided by Operating
Activities**

Operating Income	<u>\$ 13,368</u>
Net Cash Provided By Operating	
Activities	<u><u>\$ 13,368</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

LINCOLN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Cash and Cash Equivalents	\$ 8,641
Total Current Assets	<u>8,641</u>
Liabilities	
Amounts Held In Custody For Others	<u>8,641</u>
Total Liabilities	<u>8,641</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lincoln County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14 and GASB 39, management has included the Lincoln County Public Properties Corporation as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. Therefore, management has included the Corporation as part of the reporting entity, and the activity has been blended with that of the fiscal court.

Additional - Lincoln County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for the election of the officials above from the geographic area constituting Lincoln County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, and other counties for housing prisoners. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Federal Grants Fund - The primary purpose of this fund is to account for federal grant activity of the county. The primary sources of revenue for this fund are federal grants received directly from the federal government or passed through to the county from state government and required matching funds for the federal grants.

Occupational Tax Fund - The primary purpose of this fund is to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

The government also has the following non-major funds: Local Government Economic Assistance Fund, and Law Enforcement Facilities Fund, which are presented as Special Revenue Funds and the Public Properties Corporation which is presented as a Debt Service Fund. The Special Revenue Funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	2-40
Infrastructure	20,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, KADD Financing Trust, KACO Leasing Trust, and Ford Motor Credit financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest when paid, during the current period. The principal amount of the debt and interest is reported as expenditures.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund to comply with these requirements. The Governor’s Office For Local Development does not require this fund to be budgeted

I. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the McKinney Water District is considered a related organization of Lincoln County Fiscal Court.

J. Jointly Governed Organizations

The Stanford/Lincoln County Industrial Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of the County and City. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest. The County did not contribute any funds to the Stanford/Lincoln County Industrial Authority for the year ended June 30, 2004.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name. The county's investments are all considered Category 1.

Types of Investments	Category 1	Carrying Amount	Market Value
FNMA - 0%	\$ 145,095	\$ 145,095	\$ 147,609
Totals	<u>\$ 145,095</u>	<u>\$ 145,095</u>	<u>\$ 147,609</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 339,743			\$ 339,743
Total Capital Assets Not Being Depreciated	339,743			339,743
Capital Assets, Being Depreciated:				
Buildings	4,285,825			4,285,825
Equipment	552,368	50,064		602,432
Vehicles	302,376	47,000		349,376
Infrastructure	2,734,802	762,887		3,497,689
Total Capital Assets Being Depreciated	7,875,371	859,951		8,735,322
Less Accumulated Depreciation For:				
Buildings	(596,916)	(69,724)		(666,640)
Equipment	(219,151)	(33,281)		(252,432)
Vehicles	(114,040)	(36,465)		(150,505)
Infrastructure	(426,707)	(186,072)		(612,779)
Total Accumulated Depreciation	(1,356,814)	(325,542)		(1,682,356)
Total Capital Assets, Being Depreciated, Net	6,518,557	534,409		7,052,966
Government Activities Capital Assets, Net	\$ 6,858,300	\$ 534,409	\$ 0	\$ 7,392,709

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 58,278
Protection to Persons and Property	15,471
General Health and Sanitation	6,528
Social Services	14,784
Recreation and Culture	3,819
Roads, Including Depreciation of General Infrastructure Assets	<u>226,662</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 325,542</u>

Note 4. Short-term Debt

In July 2003, Lincoln County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$784,000, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$228.

Changes In Short-term Liabilities

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Kentucky Advance Revenue Program	\$ 0	\$ 784,000	\$ 784,000	\$ 0
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 784,000</u>	<u>\$ 784,000</u>	<u>\$ 0</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt

A. 1996 Revenue Bonds

Bonds outstanding of the Public Properties Corporation Fund are \$1,700,000 in First Mortgage Revenue Bonds series 1996 dated May 1, 1996 bearing interest ranging from 5.25% to 6.00%. The schedule below sets forth Lincoln County's annual debt service of the bonds after deducting Administrative Office of the Courts' (AOC) rental payments and interest earned or principal credited from the Debt Service Reserve Fund.

Fiscal Year Ending June 30	Principal Payment	Interest Payment	Total Payment	Less Debt Service Reserve & Cap. Interest	Less AOC Rental Amount*	Net Amount Due From County
2005	\$ 35,000	\$ 106,368	\$ 141,368	\$ (7,988)	\$ (97,142)	\$ 36,238
2006	40,000	104,530	144,530	(7,988)	(97,142)	39,400
2007	40,000	102,430	142,430	(7,988)	(97,142)	37,300
2008	45,000	100,230	145,230	(7,988)	(97,142)	40,100
2009	45,000	97,710	142,710	(7,988)	(97,142)	37,580
2010-2014	270,000	445,525	715,525	(39,940)	(485,710)	189,875
2015-2019	355,000	353,360	708,360	(39,940)	(485,710)	182,710
2020-2024	490,000	223,275	713,275	(39,940)	(485,710)	187,625
2025-2027	380,000	50,375	430,375	(169,194)	(291,426)	(30,245)
Totals	<u>\$ 1,700,000</u>	<u>\$ 1,583,803</u>	<u>\$ 3,283,803</u>	<u>\$ (328,954)</u>	<u>\$ (2,234,266)</u>	<u>\$ 720,583</u>

* In accordance with a sublease agreement between AOC and the Lincoln County Fiscal Court dated May 1, 1996, AOC committed itself to participate in providing part of the costs of constructing a courthouse annex through use allowance payments.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

B. E-911 Building

On August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for the purchase of an E-911 building facility. Principal payments are due annually by January 20. The principal outstanding as of June 30, 2004 was \$35,000. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>
2005	\$ 2,085	\$ 4,000
2006	1,835	4,000
2007	1,584	4,000
2008	1,308	5,000
2009	1,021	4,000
2010-2012	1,449	14,000
Totals	<u>\$ 9,282</u>	<u>\$ 35,000</u>

C. Pine Hall Water Project

On April 6, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project. Principal payments are due annually by January 20. The principal outstanding as of June 30, 2004 was \$404,000. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 24,535	\$ 19,000
2006	23,332	20,000
2007	22,068	21,000
2008	20,741	22,000
2009	19,352	23,000
2010-2014	73,653	132,000
2015-2019	27,654	167,000
Totals	<u>\$ 211,335</u>	<u>\$ 404,000</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

D. Fire Trucks

On April 5, 2001, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of two fire trucks. Principal payments are due annually by January 20. The principal outstanding as of June 30, 2004 was \$189,108. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 8,934	\$ 24,000
2006	7,716	25,000
2007	6,448	26,000
2008	5,131	27,000
2009	3,763	28,000
2010-2011	3,222	59,108
Totals	<u>\$ 35,214</u>	<u>\$ 189,108</u>

E. Senior Citizens Center

On May 16, 2001, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for the construction of a Senior Citizens Center. Principal payments are due annually by January 20. The principal outstanding as of June 30, 2004 was \$580,000. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 32,361	\$ 25,000
2006	30,940	25,000
2007	29,520	25,000
2008	28,100	25,000
2009	26,679	25,000
2010-2014	108,138	160,000
2015-2019	57,478	200,000
2020-2021	5,989	95,000
Totals	<u>319,205</u>	<u>\$ 580,000</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

F. Fire Truck

On December 6, 2001, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of a fire truck. Principal payments are due annually by January 20. The principal outstanding as of June 30, 2004 was \$103,591. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 4,877	\$ 11,243
2006	4,314	11,692
2007	3,728	12,160
2008	3,118	12,646
2009	2,484	13,152
2010-2012	<u>3,389</u>	<u>42,698</u>
Totals	<u>\$ 21,910</u>	<u>\$ 103,591</u>

G. Fire Pumper Trucks

On April 22, 2003, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of two fire pumper trucks. Principal payments are due monthly. The principal outstanding as of June 30, 2004 was \$221,867. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest and Fees</u>	<u>Principal Amount</u>
2005	\$ 8,915	\$ 20,974
2006	8,031	21,868
2007	7,093	22,799
2008	6,126	23,771
2009	5,089	24,784
2010-2013	<u>9,305</u>	<u>107,671</u>
Totals	<u>\$ 44,559</u>	<u>\$ 221,867</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

H. First Southern Veterans Park

On May 2, 2003, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the acquisition of land for the First Southern Veterans Park. Principal payments are due monthly. The principal outstanding as of June 30, 2004 was \$104,531. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 2,960	\$ 10,297
2006	2,654	10,604
2007	2,338	10,920
2008	2,016	11,246
2009	1,680	11,581
2010-2013	<u>3,177</u>	<u>49,883</u>
Totals	<u>\$ 14,825</u>	<u>\$ 104,531</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

I. Courthouse Annex

On June 24, 1999, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KADD Financing Trust for construction costs to complete the second floor of the courthouse annex. The principal outstanding as of June 30, 2004 was \$300,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal Payment	Interest Payment	Trustee Fee	Total Payment	Less AOC Rental Amount*	Net Amount Due From County
2005	\$ 15,000	\$ 15,880	\$ 500	\$ 31,380	\$ (28,000)	\$ 3,380
2006	15,000	15,145	500	30,645	(28,000)	2,645
2007	15,000	14,410	500	29,910	(28,000)	1,910
2008	15,000	13,675	500	29,175	(28,000)	1,175
2009	15,000	12,940	500	28,440	(28,000)	440
2010-2014	85,000	52,810	2,500	140,310	(140,000)	310
2015-2019	115,000	26,675	2,500	144,175	(140,000)	4,175
2020	25,000	1,375	500	26,875	(28,000)	(1,125)
Totals	<u>\$ 300,000</u>	<u>\$ 152,910</u>	<u>\$ 8,000</u>	<u>\$ 460,910</u>	<u>\$ (448,000)</u>	<u>\$ 12,910</u>

* In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated April 15, 1998, AOC committed itself to participate in providing part of the costs of completing the second floor of the courthouse annex through use allowance payments.

J. Sheriff's Cruiser

On September 18, 2001, the Lincoln County Fiscal Court entered into a 4-year leasing agreement with Ford Motor Credit Company for the purchase of a Sheriff's cruiser. Payments are due annually by September 18. Remaining principal and interest payments are:

Fiscal Year Ending June 30	Scheduled Interest	Principal Amount
2005	<u>\$ 358</u>	<u>\$ 5,642</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

K. Sheriff's Cruiser

On July 5, 2002, the Lincoln County Fiscal Court entered into a 4-year leasing agreement with Ford Motor Credit Company for the purchase of a Sheriff's cruiser. Payments are due annually by July 5.

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 0	\$ 0
2006	404	5,779
Totals	<u>\$ 404</u>	<u>\$ 5,779</u>

In July 2003, the Sheriff's office made a payment from the Sheriff's 2003 Fee Account. In addition, in June 2004, the County also made a payment. As a result, no payment is due during fiscal year ended June 30, 2005.

L. Sheriff's Cruisers

On February 4, 2003, the Lincoln County Fiscal Court entered into a 4-year leasing agreement with Ford Motor Credit Company for the purchase of two Sheriff's cruisers. Payments are due annually by February 4.

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2005	\$ 1,329	\$ 10,396
2006	685	11,041
Totals	<u>\$ 2,014</u>	<u>\$ 21,437</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

M. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
First Mortgage Revenue Bonds	\$ 1,735,000		\$ 35,000	\$ 1,700,000	\$ 35,000
KACO Financing Obligations	1,744,540		106,443	1,638,097	114,514
KADD Financing Obligations	310,000		10,000	300,000	15,000
Ford Motor Credit Company - Sheriff's Cruisers	64,107		31,249	32,858	16,038
Governmental Activities					
Long-term Liabilities	<u>\$ 3,853,647</u>	<u>\$ 0</u>	<u>\$ 182,692</u>	<u>\$ 3,670,955</u>	<u>\$ 180,552</u>

In July 2003, the Sheriff's office made a \$5,047 principal payment from the Sheriff's 2003 Fee Account on the Sheriff's cruiser (Note 5. K.) In addition, in June 2004, the County also made a \$5,401 principal payment on this same cruiser. The total principal reduction of \$10,448 is included in the Reductions above.

Note 6. Sublease Agreements

- A. August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year lease agreement with KACO Leasing Trust for the purchase of an E-911 building. On that same date, Lincoln County Fiscal Court and Lincoln County Emergency Communications Commission entered into a sublease which stated that for and in consideration of E-911 being allowed to utilize the properties as set up in the KACO Leasing Trust agreement with the county, E-911 will reimburse the county all rental payments as set out in the county's KACO Leasing Trust agreement. As of June 30, 2004, the Lincoln County Emergency Communications Commission was in substantial compliance with the agreement.
- B. On April 4, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project. On that same date, Lincoln County Fiscal Court and the City of Stanford entered into a sublease which stated the City of Stanford will reimburse the county all rental payments as set out in the county's KACO Leasing Trust agreement. As of June 30, 2004, the City of Stanford was in substantial compliance with the agreement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Lincoln County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Interfund Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
Occupational Tax	General	General Government Activities	\$ 297,000
Occupational Tax	Road and Bridge	Road and Bridge Activities	847,000
General	Public Properties Corporation	Debt Service Requirements	38,076
			<u>\$ 1,182,076</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 10. Prior Period Adjustments

The beginning fund balance of \$2,251,399 includes prior period adjustments of \$196 for prior year voided checks.

Note 11. Changes in Accounting Principles

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$5,261,099 and the beginning fund balance was \$2,251,399 for an increase of \$3,009,700 that was due to capital assets previously omitted.

The beginning net asset balance of the business-type activities was not affected by this change in accounting principles.

Note 12. Subsequent Events

Lincoln County authorized its General Obligation Improvement Bonds, Series 2004, dated September 1, 2004, in the principal amount of \$2,000,000 for the purpose of financing site development of a new countywide recreational park.

The Lincoln County Public Properties Courthouse Corporation, at the direction of the County, authorized its First Mortgage Revenue Refunding Bonds, Series 2004, dated October 1, 2004, in the principal amount of \$1,800,000 for the purpose of refunding the 1996 bond issue.

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2004

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 717,000	\$ 717,000	\$ 783,007	\$ 66,007
Excess Fees	80,098	80,098	78,420	(1,678)
Licenses and Permits	46,300	46,300	104,386	58,086
Intergovernmental Revenue	639,059	735,005	310,548	(424,457)
Charges for Services	270,500	270,500	366,431	95,931
Miscellaneous	177,659	177,659	204,093	26,434
Interest	10,000	10,000	5,247	(4,753)
Total Revenues	1,940,616	2,036,562	1,852,132	(184,430)
EXPENDITURES				
General Government	759,596	858,901	693,622	165,279
Protection to Persons and Property	509,899	656,978	244,804	412,174
General Health and Sanitation	301,079	327,297	223,172	104,125
Social Services	117,423	122,437	93,561	28,876
Recreation and Culture	253,281	272,778	83,276	189,502
Debt Service	209,125	230,526	227,250	3,276
Administration	481,497	408,929	385,139	23,790
Total Expenditures	2,631,900	2,877,846	1,950,824	927,022
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(691,284)	(841,284)	(98,692)	742,592
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	297,931	297,931	297,000	(931)
Transfers Out to Other Funds	(38,076)	(38,076)	(38,076)	
Total Other Financing Sources and Uses	259,855	259,855	258,924	(931)
Net Changes in Fund Balances	(431,429)	(581,429)	160,232	741,661
Fund Balances - Beginning	431,429	431,429	413,129	(18,300)
Fund Balances - Ending	\$ 0	\$ (150,000)	\$ 573,361	\$ 723,361

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD AND BRIDGE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,063,840	\$ 1,223,840	\$ 1,215,149	\$ (8,691)
Miscellaneous	2,000	2,000	24,582	22,582
Interest	2,000	2,000	1,429	(571)
Total Revenues	<u>1,067,840</u>	<u>1,227,840</u>	<u>1,241,160</u>	<u>13,320</u>
EXPENDITURES				
General Health and Sanitation	30,000	30,000	20,786	9,214
Roads	1,348,523	1,694,800	1,602,179	92,621
Capital Projects	70,000	140,921	113,593	27,328
Administration	321,320	269,122	215,381	53,741
Total Expenditures	<u>1,769,843</u>	<u>2,134,843</u>	<u>1,951,939</u>	<u>182,904</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(702,003)</u>	<u>(907,003)</u>	<u>(710,779)</u>	<u>196,224</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	697,003	697,003	847,000	149,997
Total Other Financing Sources and Uses	<u>697,003</u>	<u>697,003</u>	<u>847,000</u>	<u>149,997</u>
Net Changes in Fund Balances	(5,000)	(210,000)	136,221	346,221
Fund Balances - Beginning	<u>5,000</u>	<u>60,000</u>	<u>75,242</u>	<u>15,242</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (150,000)</u>	<u>\$ 211,463</u>	<u>\$ 361,463</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental Revenue	\$ 694,257	\$ 694,257	\$ 667,318	\$ (26,939)
Charges for Services	16,000	16,000	49,489	33,489
Miscellaneous	22,500	22,500	37,126	14,626
Interest	750	750	731	(19)
Total Revenues	<u>733,507</u>	<u>733,507</u>	<u>754,664</u>	<u>21,157</u>
EXPENDITURES				
Protection to Persons and Property	713,283	715,677	663,726	51,951
Administration	184,536	182,142	165,171	16,971
Total Expenditures	<u>897,819</u>	<u>897,819</u>	<u>828,897</u>	<u>68,922</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(164,312)</u>	<u>(164,312)</u>	<u>(74,233)</u>	<u>90,079</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	39,798	39,798		(39,798)
Total Other Financing Sources and Uses	<u>39,798</u>	<u>39,798</u>		<u>(39,798)</u>
Net Changes in Fund Balances	(124,514)	(124,514)	(74,233)	50,281
Fund Balances - Beginning	<u>124,514</u>	<u>124,514</u>	<u>161,956</u>	<u>37,442</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 87,723</u>	<u>\$ 87,723</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

FEDERAL GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,149,519	\$ 2,149,519	\$ 478,870	\$ (1,670,649)
Miscellaneous	17,376	17,376		(17,376)
Total Revenues	<u>2,166,895</u>	<u>2,166,895</u>	<u>478,870</u>	<u>(1,688,025)</u>
EXPENDITURES				
Protection to Persons and Property	95,000	95,000		95,000
Recreation and Culture	150,000	150,000		150,000
Capital Projects	2,493,737	2,493,737	616,929	1,876,808
Total Expenditures	<u>2,738,737</u>	<u>2,738,737</u>	<u>616,929</u>	<u>2,121,808</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(571,842)</u>	<u>(571,842)</u>	<u>(138,059)</u>	<u>433,783</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	176,385	176,385		(176,385)
Total Other Financing Sources and Uses	<u>176,385</u>	<u>176,385</u>		<u>(176,385)</u>
Net Changes in Fund Balances	(395,457)	(395,457)	(138,059)	257,398
Fund Balances - Beginning	<u>395,457</u>	<u>395,457</u>	<u>233,890</u>	<u>(161,567)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,831</u>	<u>\$ 95,831</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 975,000	\$ 975,000	\$ 1,058,220	\$ 83,220
Charges for Services	150	150	97	(53)
Miscellaneous	500	500	1,147	647
Interest	12,000	12,000	11,562	(438)
Total Revenues	987,650	987,650	1,071,026	83,376
EXPENDITURES				
General Government	84,565	86,968	73,993	12,975
Administration	913,552	611,147	22,272	588,875
Total Expenditures	998,117	698,116	96,265	601,851
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(10,467)	289,534	974,761	685,227
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds	(1,211,117)	(1,211,117)	(1,144,000)	67,117
Total Other Financing Sources and Uses	(1,211,117)	(1,211,117)	(1,144,000)	67,117
Net Changes in Fund Balances	(1,221,584)	(921,583)	(169,239)	752,344
Fund Balances - Beginning	1,221,584	1,221,584	1,176,279	(45,305)
Fund Balances - Ending	\$ 0	\$ 300,001	\$ 1,007,040	\$ 707,039

LINCOLN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LINCOLN COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2004

LINCOLN COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	
	<u>LGEA Fund</u>	<u>Law Enforcement Facilities Fund</u>	<u>Public Properties Corporation</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash	\$ 8,147	\$ 10,915	\$ 23,415	\$ 42,477
Investments			145,095	145,095
Total assets	<u>\$ 8,147</u>	<u>\$ 10,915</u>	<u>\$ 168,510</u>	<u>\$ 187,572</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 4,800			\$ 4,800
Unreserved:				
Special Revenue Funds	3,347	\$ 10,915		14,262
Debt Service Fund			\$ 168,510	168,510
Total Fund Balances	<u>\$ 8,147</u>	<u>\$ 10,915</u>	<u>\$ 168,510</u>	<u>\$ 187,572</u>

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LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	
	<u>LGEA Fund</u>	<u>Law Enforcement Facilities Fund</u>	<u>Public Properties Corporation</u>	<u>Total Non-Major Funds</u>
REVENUES				
Intergovernmental	\$ 30,894		\$ 125,142	\$ 156,036
Interest	82	54	4,295	4,431
Total Revenues	<u>30,976</u>	<u>54</u>	<u>129,437</u>	<u>160,467</u>
EXPENDITURES				
Roads	31,799			31,799
Debt Service			170,065	170,065
Administration	10			10
Total Expenditures	<u>31,809</u>	<u></u>	<u>170,065</u>	<u>201,874</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(833)</u>	<u>54</u>	<u>(40,628)</u>	<u>(41,407)</u>
Other Financing Sources (Uses)				
Transfers In From Other Funds			38,076	38,076
Total Other Financing Sources (Uses)			<u>38,076</u>	<u>38,076</u>
Net Change in Fund Balances	(833)	54	(2,552)	(3,331)
Fund Balances - Beginning	8,980	10,861	171,062	190,903
Fund Balances - Ending	<u>\$ 8,147</u>	<u>\$ 10,915</u>	<u>\$ 168,510</u>	<u>\$ 187,572</u>

**LINCOLN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Lincoln County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lincoln County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Lincoln County reported in Part C of this schedule.
7. The program tested as a major program was: U. S. Department of Commerce – Public Works Grant – Rowland Industrial Park – CFDA #11.300.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lincoln County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

None

NONCOMPLIANCES

Reference Number 2004-1

The Former Road Department Secretary Converted Vending Machine Commission Checks To Cash

During fiscal year ended June 30, 2004, we confirmed \$67 of vending machine commission checks generated from a machine located at the County Road Garage and made payable to the Lincoln County Road Department, were not received by the County Treasurer, but were converted to cash by the former Road Department secretary. We also confirmed vending machine commission checks totaling \$274 and \$220, were also converted to cash by the former Road Department secretary for fiscal years ended June 30, 2003, and June 30, 2002, respectively. Proceeds from these checks were supposedly used to purchase candy and other items which were made available to the Road Department employees and the public. Beginning in December 2003, the County Treasurer started receiving and depositing the commission checks in the Road and Bridge Fund. We recommend the County Treasurer review all commission checks the county should be receiving and ensure the checks are made payable to the proper party and deposited in the appropriate account. We further recommend the fiscal court consult the County Attorney for the appropriate action to be taken.

County Judge/Executive Ronald W. Gilbert's Response:

We are now depositing these commission checks into the Road and Bridge Fund. We were not aware she was receiving these checks. We will monitor all commission checks and deposit them accordingly. We will also consult with the County Attorney.

LINCOLN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None

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LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U. S. Department of Commerce</u>		
Direct Program:		
Grant for Public Works and Economic Development Facilities - Rowland Industrial Park (CFDA #11.300)	04-01-04881	\$ 483,944
Passed-Through Eastern Kentucky PRIDE, Inc.: Congressionally Identified Awards and Projects PRIDE Community Grant Program (CFDA #11.469)	CF02-19	<u>7,004</u>
Total U.S. Department of Commerce		\$ 490,948
<u>U.S. Department of Justice</u>		
Direct Program:		
Public Safety Partnership and Community Policing Grants - COPS Universal Hiring Program (CFDA #16.710)	#2002UMXW 0128-064985	\$ 57,588
<u>U.S. Appalachian Regional Commission</u>		
Passed-Through State Department for Local Government:		
Apalachian State Research Technical Assistance and Demonstration Projects FLEX-E Program (CFDA #23.011)	Not Available	\$ 3,000

LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2004
Other Supplementary Information
(Continued)

Federal Grantor	Pass-Through Grantor's Number	Expenditures
Program Title <u>Grant Name (CFDA #)</u>		
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Public Assistance Grants - Severe Weather - May 2004 (CFDA #97.036)	FEMA-1523- DR-KY	\$ 21,230
Emergency Management Performance Grants- Coordinator Salary (CFDA #97.042)	Not Available	1,403
State and Local All Hazards Emergency Operations Planning Weapons of Mass Destruction (CFDA # 97.051)	Not Available	2,149
Emergency Operations Center (CFDA # 97.052)	Not Available	<u>2,500</u>
Total U.S. Department of Homeland Security		<u>\$ 27,282</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 578,818</u></u>

LINCOLN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lincoln County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 9, 2005. Lincoln County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2004-1: The Former Road Department Secretary Converted Vending Machine Commission Checks To Cash



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Lincoln County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lincoln County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Lincoln County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lincoln County's management. Our responsibility is to express an opinion on Lincoln County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lincoln County's compliance with those requirements.

In our opinion, Lincoln County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Lincoln County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

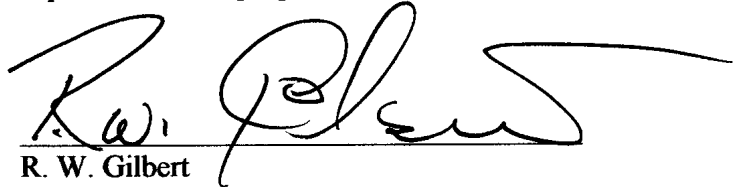
LINCOLN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

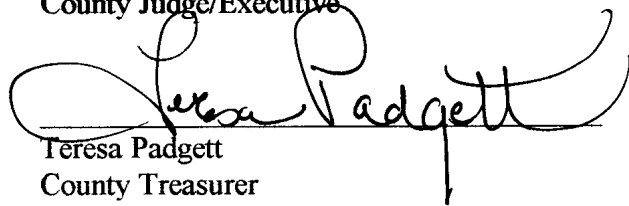
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LINCOLN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Lincoln County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



R. W. Gilbert
County Judge/Executive



Teresa Padgett
County Treasurer